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# **The EU and China: The historical genesis of a new “strategic axis” in world politics**

Wolfgang Zank

## **Introduction: A New “Axis”?**

In September 2004 David Shambaugh, of George Washington University, published a small article under the heading: “China and Europe: The Emerging Axis.” In his view, one “of the most important, yet least appreciated developments ... has been the dramatic growth in ties between China and Europe” (Shambaugh 2004, 243). He pointed, firstly, at the strong growth in trade relations; the EU also became the largest foreign supplier of technology and equipment, in the form of direct investment, but also through a number of joint technology projects. The EU-China Framework Program became the world’s largest common research project. As to political cooperation, numerous meetings have been institutionalised, among them, at the top level an annual EU-China Summit. The contacts have resulted in a number of agreements, for instance on group tourism. According to estimates 100,000 Chinese Students went to European universities and colleges in the 2003/4 academic year, considerably more than the 60,000 in the US. Also the Chinese Communist Party has established many exchanges with European political parties. Twenty separate dialogues and working groups covered a variety of issues, from human rights to textile trade. Each meeting generated the elaboration of proposals and negotiations of tangible programs – “thus marrying the respective bureaucracies and fusing them with common purpose.” The multitude of all these interactions has often been confusing and overlapping, “but the totality of exchanges is impressive.” To be sure, there were also points of frictions such as the European arms embargo (introduced after the Tianmen massacre in 1989), but Shambaugh saw it as highly likely that the relationship between EU and China would continue to grow and develop. “Over time it will become a new axis in world affairs, and will serve as a source of stability in a volatile world” (Shambaugh 2004, 248).

David Scott, Brunel University, took the issue up again in 2007. He ended on positions similar to Shambaugh’s. In the conclusion he quoted Tony Blair, in 2005 UK Prime Minister and holding the rotating presidency of the EU. Blair said at the 8<sup>th</sup> Annual EU-China Summit that “the strategic partnership between China and the European Union is of immense importance, not just in terms of trade and the economy, but also in terms of our cooperation in all the major issues the world faces”. In Scott’s view, this was not just rhetoric, but a “fitting

enough recognition of a new relationship". EU-China links are now "of strategic political significance" (Scott 40).

However, in the second half of the decade sentiments became less upbeat. Shambaugh himself wrote in the *International Herald Tribune* (26 November 2007) that "for Europe the 'China honeymoon' is over. As the 10<sup>th</sup> European Union-China summit convenes in Beijing this week after 15 years of rapidly and dramatically developing ties, there are numerous indications of new strains emerging in the relationship" (as quoted in Zhang 135). A rather drastic of such indications occurred in mid-2008 when the Chinese leadership cancelled the scheduled EU-China summit in response to French President Nicolas Sarkozy having received the Dalai Lama. On the European side disappointment was expressed because the intense dialogue has not produced the wished-for progress on the field of human rights, rule by law and democracy, and because China has not kept some promises as to opening market access. Instead of emphasizing, as previously, the huge potential gains of increased cooperation, some European experts talked of both threats and opportunities. On the Chinese side actors expressed delusion because the EU did not become a balancing power as regards the USA. Journalists and academics even frequently expressed pessimism about the future of European integration after the Constitutional Treaty was rejected by the Dutch and French voters (Zhang 129f).

Consequently, no new axis? To be sure, the term "axis" is potentially misleading, giving perhaps associations of an alliance or even evoking reminiscences about the axis of World-War II notoriety. We will not see the development of a European-Chinese hegemonic power block, directed against the US or others. But a further increase in European-Chinese cooperation is highly likely. And this ever-closer cooperation (in some sense, e.g. economic, even integration) will have its impact on Europe and China and on the globe as a whole. A stabilizing impact. Powerful forces and interests work in this direction. Closer cooperation between the EU and China does not exclude closer cooperation with other powers such as the US. "Increasing cooperation" is not a zero-sum game.

In general, the developing European-Chinese cooperation is just one part of a broader picture in International Relations, where notions such as power struggles - at least in relative terms - have become increasingly less important. When scholars of the so-called Realist School expressed the view that the 21<sup>st</sup> century will look like the 19<sup>th</sup>, with the rising China as a major source of tension, if not risk of war (see below), they can point to some elements of reality, but they get matters profoundly out of proportion. The world has changed dramatically during the last decades, with completely new dynamics in

international relations, in particular as regards China (and the EU). In the following sections I try to give substance to these statements.

Before we have a closer look at the EU-China relations it is helpful to go back in time, in order to get the broader picture. Then some rather stable long-term developments become apparent, internally and externally. *Foreign* policy and international relations cannot be understood without a close look to changes in the *domestic* constellations. This is particularly valid in the case of China, but also for the European states and their union.

The next two sections concentrate on major developments, first in the EU, and then in China. These developments created the necessary *conditions* for the strong cooperation between the EU and China. Thereafter we will follow the development of the EU-China relations and the problems which have arisen. In these sections descriptions and theoretical considerations will alternate. Some further theoretical problems will be taken up in the final section,

### **The Rise of the EU to “Superpower Status”**

By about 1970 the European countries were hardly present any more in East Asia, and particularly with China there were very few transactions. In general, Europe’s influence on global affairs was very limited by then. But things have changed considerably. By now the European Union is an influential global power which is, among other projects, engaged in a “strategic partnership” with China. In order to understand this development, a short historical review of the European Union is helpful.

The founding document of the EU is the Schuman Declaration of 9 May 1950 in which the French Foreign Minister Robert Schuman proposed the formation of a European Coal and Steel Community. The countries willing to participate should form common institution and regulations in order to form a common coal and steel market. Seemingly something very technical. But the first words of the Schuman Declaration were *la paix mondiale* – world peace. For the sake of world peace Europe should unite. But Europe could not be created in one stroke. Instead, it should be done by *réalisations concrètes* which would create a practical solidarity (*une solidarité de fait*) (Schuman Declaration).

In one point the French government was adamant: The institutions of this new construction should have supra-national competences, thereby for the first time creating binding decision-making bodies above the nation states. Otherwise the hoped-for dynamics towards more European integration would not materialize. Five other countries (Belgium, West Germany, Italy, Luxemburg and the

Netherlands) accepted. But the British could by then not accept any reduction of their national sovereignty and stayed outside (Knipping 66f).

In theoretical terms we can understand the creation of the ECSC presumably best in terms of federalist theory, as developed e.g. by William Riker: States accept some loss of sovereignty to a supranational body in order to address grave threats. By 1950 a disunited Europe had to face Stalin's mighty Soviet Union and was dependent on US protection. Furthermore, West Germany's recovery could bring a new area of potentially destructive political rivalry in Europe.<sup>1</sup>

The European Coal and Steel Community produced indeed more dynamism towards integration. For instance, interest groups and political parties began to collude across national borders, in order to bring common positions into the system. Thereby they reinforced the integrationist drive. These *spill-over processes* were meticulously documented by Ernst Haas in his seminal study *The Uniting of Europe*, where he claimed that the ECSC was the start of building a new political community (Haas 16). Haas' theory of neo-functionalism claims that, certain conditions fulfilled, an integration process will create its own momentum towards ever closer integration on ever more fields. One of the conditions was that the countries were open democratic societies. We might add that also a new centre with at least some supra-national competences must be in place.

The ambitious project of creating a European Defence Community (EDC) ended in failure, but the six ECSC member states successfully continued on the way of *réalisations concrètes*: In March 1957 they signed the Treaty of Rome, establishing the European Economic Communities (EEC). A common market was to be established, with no tariffs and quotas among the member states, and instead a common external tariff. Also in agriculture a common market was to be created, to be regulated by the Common Agricultural Policy, CAP. And thirdly, a new institution, Euratom, should foster cooperation on the field of civil nuclear energy.

Because of the common external tariff trade policy had to be a competence of the union. Thereby the EEC gained an important piece of foreign policy. In the successive rounds of the GATT negotiations on coordinated tariff reductions in manufactured goods the new union negotiated with one voice. And the Yaoundé Convention with the former French and Belgian colonies granted them

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<sup>1</sup> Astoundingly, many overview books on theories of European integration omit this branch of explicative theory, dealing with "federalism" only as a normative theory. A very useful overview of Riker's theory, based on realist assumptions, and many discussions about it can be found in (McKay 15-36).

preferential access to the EEC-market, no the least in agricultural products. After the accession of Great Britain the system was enlarged to the former British colonies.

French President Charles de Gaulle, in power since 1958, dreaded an erosion of French national sovereignty and tried to block the transition to qualified majority voting in the council of ministers, by then practically the only law-making institution. De Gaulle was also against giving budgetary competences to the European Parliament (by then exclusively in an advisory role). For seven month, from July 1965 to January 1966, the French government boycotted the European institutions. The “Luxemburg Compromise” ended the conflict, along the following lines: The treaties remained in force as they were – a central concession from de Gaulle’s side. And the community got partly her own financial means. On the other hand it was agreed that a government could block a council decision when important national interests were at stake. This meant in practice that unanimity was usually required (Knipping 135-41).

In theoretical terms, the French position can be explained in realist terms: States guard their sovereignty. However, crucially, de Gaulle did not manage to roll things back; France had to accept that her sovereignty remained constrained in some fields. With the prospect of more to come. This outcome must surprise scholars of the realist school. Why had de Gaulle to give in at this central point? Among others, because powerful interests in France herself, industry and not the least agriculture mobilized to support the European construction. This we might see as a point for Historical Institutionalism: Institutional arrangements, once in place, create “path dependency”.

In the meantime in 1962 and 1963, hardly noticed by the public at large, the European Court of Justice had made two “landmark decisions. While dealing with small technical issues such as custom formalities or electricity bills it had stated that the Community legislation had *direct effect*: Citizens could use it to go to court at home, invoking community laws. And furthermore, community legislation was *superior* to national law. In my view, these principles are consequences of the treaties: In a community with supranational competences, it would indeed be illogical to allow national legislation to go against it. As it turned out, the European Court of Justice became an important actor, interfering in national legislation in a plethora of cases. This was not anticipated when the Rome Treaty was signed. But interestingly, no attempt to reduce the power of the European Court of Justice had any success. On the contrary, every new treaty brought more fields under the court’s jurisdiction. We might see also this as “path dependency”. And as series of spill-over effects where legislative acts in one fields created integrationist effects in others because a legal system has to be consistent throughout.



No other international arrangement has so far produced supranational legislation and jurisdiction of such a strong character.

As already by Haas in the 1950s, the new “club” developed a strong power of attraction to neighbours. In 1957 the United Kingdom still rejected signing the Rome Treaty, on the usual grounds of protecting national sovereignty. But few years afterwards London filed pleas for admission – twice vetoed by France’s de Gaulle who saw Britain a Trojan Horse of the US. But the shift from de Gaulle to Pompidou opened the door, and in 1973 the United Kingdom gained membership. Together with Denmark and Ireland (the Norwegian voters rejected the planned-for Norwegian accession). Haas explained this power of attraction as “geographical spill-over.” He saw on the British side that the successful launch of the ECSC “seemed to compel closer ties than previously planned ... Fear of isolation thus became a potent catalyst to the spill-over process ...” (Haas 314f). London had to realize “the need for more and more intimate economic contacts in areas of activity until recently considered the sacrosanct preserve of national governments ...” (Haas 317). London (and Copenhagen) were not really enthusiastic about European integration. But staying outside would be of even bigger harm to their essential interests.

Stabilizing new democracies by anchoring them in the EU system became another motive for enlargement . For the first time this was an issue in the case of Greece, a member since 1981 (Smith 2003 : 110). Also in the context of Spain and Portugal (1986) this idea played an important role, and again in the big eastern enlargement of 2004 (see below).

In the 1970s European integration seemed to be again in a crisis. The member states applied different politics when fighting with the economic crisis. Some tolerated rather high inflation or resorted to neo-protectionist policies. Tariffs among the member states were abolished, but a plethora of non-tariff barriers (e.g divergent technical standards or discriminatory public procurement practices) kept the “common” market fragmented. Economic growth remained sluggish, and many observers spoke of “eurosclerosis”.

However, the crisis paved the ground for the built-up of institutions to forward “deep economic integration” with reforms “behind the borders”. By about 1980 a rather broad consensus united policy makers that “something” had to be done in order to address the fragmentation of the European market. In particular the Commission spread the idea that the multitude of non-tariff barriers had to be removed by hundreds of European legislative acts. And such a comprehensive legislative program made it necessary to introduce *majority voting* in the council of ministers, thus abolishing the veto power for every country.

The Luxemburg summit in December 1987 brought the break-through to regards majority voting. The United Kingdom and Denmark were bitterly opposed, but Prime Minister Margaret Thatcher gave in eventually, for fear of exclusion from the common big Internal Market. The mechanism, identified by Haas in the 1950s, worked again. The new treaty (Single European Act) opened up for majority voting for all matters pertaining to the Single Market. And for the first time the European Parliament gained true legislative competence.

The launching of the Single Market gave European integration a new impetus. The EU system proved capable of producing “deep integration” on a large scale. The body of EU legislation grew, covering more and more aspects. As it turned out, there was no clear-cut border between those matters which pertain to the Single Market, and those which do not. Already the Single European Act gave competences to the Union as regards environmental policies, research and technological development and economic and social cohesion (Nugent 59). Every new treaty enlarged the fields of EU competences further.

The idea of a common currency has been debated for decades. Small wonder given the fact that it has not been possible to talk of a true Single Market if economic transactions are hampered by diverging inflation rates, shifting exchange rates and diverging interest rates. Actually the European Exchange Rate Mechanism of 1979, which pegged most European currencies to each other, was planned as a preparatory step to monetary union.

The possibilities for such a move improved dramatically in 1982 when the French government (and others) adopted a German/Dutch style of monetary policy, placing the emphasis on stability and low inflation. The functional pressures for a monetary union and the converging of the views on monetary policy can be seen as spill-over effects in the light of neo-functionalism. However, French President François Mitterrand saw monetary union mainly as a political step to further *la construction européenne*. He saw the potential danger of Moscow under Gorbachov playing off Bonn against Paris (Dyson and Featherstone : 166). When in autumn 1989 suddenly the prospect of a German unification appeared on the horizon, leaders throughout the EU concluded that binding Germany solidly in Europe was a high priority; monetary union was a concrete step in this direction. These types of geopolitical considerations can again been interpreted along the lines of Riker’s federalism: Integration as a means to avert a threat.

The Maastricht Treaty, ratified in 1993, contained a rather precise road-map to monetary union and formalized the so-call Three-Pillar Structure of the EU. The first pillar was EU policy “proper”, mainly in the economic sphere, with supranational legislation, and a strong role for the commission, the parliament

and the Court of Justice. The other two pillars were Foreign and Security Policy and Justice and Home Affairs. In these pillars cooperation was mainly intergovernmental, where representatives of the governments did the “business”, with hardly any role for the EU institutions. For many pro-Europeans this was a disappointment. However, it could also be seen as a major step towards integration. For the first time the member states, the euroskeptical UK included, conceded that the EU invaded central matters of “high politics”. Again the potentially very dangerous developments in east and central Europe and the idea to keep Germany anchored can explain this move.

Exporting democratic stability was the major issue when the EU took its first official steps at eastern enlargement in 1993. It was finally achieved in 2004. It can on the EU side be easily explained on the assumption of rational self-interested actors who saw instability in their neighbourhood as a potential threat. Followers of social constructivism have highlighted the importance of feelings of “common European identity”, but such factors were of secondary importance. Every new member had to bring its institutional settings in line with criteria set by the EU, the most important being democracy and rule by law, reasonably efficient administrative capabilities and a competitive economy. These criteria must be fulfilled prior to accession, and this in turn gave the EU the power to transform these societies to a high extent (Zank 2005).

Currently the EU counts 27 members. There is more to come, Croatia being rather imminent, others (Serbia, Albania, perhaps Turkey or Ukraine) more in the future.

In the 1990s the Common Foreign and Security Policy proved rather inefficient. During the Yugoslav civil war the EU could not influence developments noticeably. The US had to intervene militarily and then broker the Dayton Treaty. Again during the Kosovo crisis of 1998 it was mainly the US to do the NATO bombing campaign. These experiences made in 1999 EU leaders to launch the European Security and Defence Policy which should provide the EU with military capabilities for peace keeping operations. The EU could indeed launch its first operation of this kind in 2003, preventing the outbreak of civil war in Macedonia. Thereafter numerous missions in the Balkans, the Middle East, Africa and even Indonesia followed. The EU proved quite effective when it came to combine military peace keeping with complementary civil activities such as organizing police forces, training lawyers and judges, setting up administrative structures, or giving humanitarian aid. The ESDP allowed EU’s foreign policy to move “from a declaratory foreign policy focused on diplomacy to a more action-oriented foreign policy focused on more pro-active crisis management” (Keukeleire and MacNaughtan : 57).

For followers of the “Realist School” these developments must be surprising. But in the light of interdependence theories, the development of the EU to a military actor is less surprising. Instability and failing states were seen as dangers for the European countries. And only by pooling military resources could these new threats be addressed. Again a combination of federalism theory and neo-functionalism seem to be useful for explanation.

The foreign-policy dimension became further strengthened by the ratification of the Lisbon Treaty (2009). It provided for the institutionalisation of an EU diplomatic service (European External Action Service) and a “foreign minister” who chairs the meetings of council of foreign ministers while also being deputy chairman of the European commission, thereby presumably increasing the coherence of the various external activities. But the basic decisions have still to be achieved by unanimity in the council of ministers. It has been possible to formulate common strategies on a row of issues and make the institutions work for them, but when new issues emerge there is often no consensus and hence no EU policy. In 2011 intervention in Libya has been such a case.

Now (2011) Europe has become “the second superpower”, to quote Andrew Moravcsik, Princeton. Point one, its military power is “far more formidable ... than most observers acknowledge” (Moravcsik 93). Europe’s military expenses amount to 21 percent of world spending. Considerably less than the US (43 percent), but much more than China’s 5 percent or Russia’s 3 percent. And forces have been used actively. In Moravcsik’s account, European states have had between 50.000 and 100.000 soldiers deployed in combat roles outside their home countries for most of the past decade. Interventions and peace-keeping missions, if not led by the US, have been led by Europeans, as in Sierra Leone, Lebanon and Chad.<sup>2</sup>

Notwithstanding its considerable hard power, “Europe is, in contrast to the United States, a ‘quiet’ superpower”, using economic influence, international law, soft power (the ability to make others follow your way of thinking) and “smart” power, i.e. combining military and civilian forms of influence (Moravcsik 93).

In fact, Europe today is more effective at projecting civilian power globally than any other state or non-state actor. And Europeans have demonstrated, contra realist claims, that such instruments of power can be extremely influential. Some of these tools are wielded by a unified

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<sup>2</sup> We might add that some of these interventions have been undertaken by individual EU-member states, for instance the British intervention in Sierra Leona. Others, Chad for instance, have been proper EU-missions.

Europe, some by European governments acting in loose coordination, and some by European governments acting unilaterally.

The single most powerful instrument is accession to the EU. Europe's "power of attraction" has helped to stabilize societies considerable (because they had to implement the voluminous package of EU laws, standards and procedures), and this process has given the EU an unprecedented power to influence the societies of the membership-hopefuls. And the effects are visible beyond the group of the countries having acceded in 2004 and 2007. Additionally, the EU pursues a "neighbourhood policy" towards the surrounding countries, "backed by Europe's economic, financial, legal and military might". Effects are visible.

More fundamentally, European countries are "the strongest and most consistent supporters of international law and institutions across the board" (Moravcsik 94). The EU is the largest financier of the UN system, its peace-keeping missions and its funds and programs. The EU countries have also signed almost all international treaties currently in place.

The EU is the largest exporter and importer in the world, and in matters trade and tariffs the EU has been unified for long. Taken together the EU and its members finance about 50 percent of the world's foreign aid (the US about 20 percent). Furthermore, "polling and practice show that European social and political models are more attractive than US alternatives." To be sure, Europe's relative weight in terms of population or GDP in the world will presumably decline, but only very slowly. According to the most pessimistic prognoses, Europe's GDP share will decline from 22 to 17 percent over the next generation – "hardly catastrophic". Furthermore, these prognoses are based on the assumption that Asian growth rates will remain at the magnitude of 10 percent per year for the next 30 years, which is unlikely. All in all, Europe's influence will presumably continue to rise, mainly due to two factors. First, Europe has increasingly become a quiet region. This allows European governments increasingly to direct energy to issues "out of area". A second advantage for Europe is a "felicitous shift" of the preferences of major countries in the world towards democracy, economic development and cooperative international relations. And this "reduces the useful range of (American) high-intensity military capabilities, while increasing the utility of European civilian power instruments" (Moravcsik 97).

I basically share Moravcsik's analysis. We must, however, make one caveat when using the term "superpower": Europe has not the capability to project military power on a massive scale. That means that countries who feel uneasy about their neighbours (e.g. the Gulf States) have to look to the US for

protection. This is still an important aspect when it comes to power in the international system.

However, this type of heavy military threats will presumably continue to decline, thereby rendering this European deficit less important. Other threats such as instability in the neighbourhood with its potential to generate terrorism, organized crime, uncontrolled migration or the spreading of diseases, will presumably fill the agenda much more. And when it comes to dealing with threats *of this kind* (which implies a long-term engagement to address the root causes of e.g. terrorism) the EU is actually the stronger superpower.

For our context important: All this has made the EU an interesting partner for China. The more so because we can notice the “felicitous” shift of government preferences not the least in China.

### **China’s Transformation and its Consequences for International Relations**

From the 15<sup>th</sup> century onwards Imperial China followed a policy of systematic closure; economic transaction with the outer world could only be done through the port of Kanton, under the supervision of the Chinese authorities. This economic isolation was broken by the European powers in the 19<sup>th</sup> century, beginning with the first Opium War of 1839-42.

The communist victory of 1949 brought an end to Western influence, and a radically new society. But as regards economic isolation it meant kind of return to tradition. In the 1950s there was some Soviet assistance, but otherwise economic transactions with the outer world were again very restricted. After the war with India in 1962 and the break with the Soviet Union in 1963 China was in general very much isolated. According to Xinning Song, China had a “strong feeling of being threatened by its neighbours that were influenced by the two hegemonic superpowers” (Song 54). This feeling of being threatened was certainly mutual. China’s neighbours saw Maoism as an ideology intent on setting the whole world ablaze. Furthermore, there were the actual actions of the Maoist leadership. For instance, as we now know after the opening of the Russian archives: Mao Tse-tung was one of the chief conspirators starting the Korean War in 1950.<sup>3</sup> Against India in 1962 and the Soviet Union in 1969 China used force in border disputes, and in 1979 the former ally Vietnam became victim of a Chinese “punitive expedition”. Also China’s closed borders and the resulting non-transparency could only create suspicion. And the few news which

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<sup>3</sup> “The final agreement to support the plans of the [North] Koreans was given by Stalin at the time of Kim Il Sung’s visit to Moscow in March-April 1950. Following this, in May, Kim Il Sung visited Beijing and secured the support of Mao” (Weathersby : 29).

actually could come out were on various occasions frightening indeed, giving a picture of an utterly destructive regime, e.g. at times of the Great Famine 1959-61 or during the “Cultural Revolution”.

But in all these respect China has changed dramatically. When Deng Hsiao-ping took over, Maoist ideology was profoundly discredited, and the new leadership looked for workable solutions in a pragmatic way. Best perhaps characterised by Deng’s remark that the colour of the cat was irrelevant as long as it catches mice.

By that time China was by comparison with her neighbours South Korea, Taiwan or Hong Kong “a stunning economic disaster” (Åslund : 189). Much of it was due to the large-scale destructions of the “Great Leap Forward” and the “Cultural Revolution”. But the economic system had also created many disincentives, not the least in agriculture with its huge Peoples’ Communes which had transformed previously independent peasants into serfs, whose rewards had hardly any connection with their work. But raising agricultural productivity was an urgent matter because food provisions for the cities were declining (Ravallion : 13). There were demands all over China to parcel out land again, and gradually accepting them the party leadership could gain legitimacy, and as it soon turned out, boost agricultural productivity. Formally the land was leased to the peasants, at first for fifteen years, later for thirty years. In practical terms this came sufficiently close to private ownership. The peasants had to sell a certain quota at fixed prices to the government, but could dispose freely over the rest. This gave powerful incentives to raise productions.

The dissolution of the People’s Communes took mainly place from 1979 to 1981. In 1983 they were formally abolished. In a rather short span of time about three quarters of the Chinese workforce left the socialized economy and entered a world with hard budget constraints and little social protection outside the family (Sachs and Woo : 104). As Stanley Fischer commented, “the Chinese agricultural reforms were truly shock therapy” (Fischer : 134).

The party leadership also allowed local governments to establish rural industries outside the socialist command system. The so-called TVE (Town and Village Enterprises) could expand substantially. They were formally not private, but given the point that they had to operate under hard budget-constraints outside the planned economy, they behaved like private companies. But also genuinely private companies were allowed. A comprehensive process of “privatization from below” began.

The socialist industrial sector remained for many years “intact”. But it was never very important in quantitative terms. By 1978 industry employed only about 15 percent of the work force, and only half of them worked in state-owned

factories. Most state-owned companies were more a burden than an asset to the Chinese economy. In the early 1990 presumably about a third were open loss-makers, while another third covered losses by opaque accounting (Sachs and Woo, 105, 110 and 118n15). Fortunately for China, the state-owned factories were more like islands in a sea of “small commodity production”, to use a Marxist term, or de facto or even formal private companies.

In the countryside there was a huge pool of “surplus labour”, people who were somewhat active in agricultural production, but whose participation did not contribute significantly to output (“hidden unemployment”). When restrictions on mobility were lifted, literally hundreds of millions of people could move to towns or other regions and work in the new companies – for wages which were low by Western standards, but which were high when compared to the poverty of the country side. In particular this huge reserve of “surplus labour” made China’s industrial rise possible.

After the collapse of the Great Leap Forward and the break with the Soviet Union China retreated into almost total economic self-isolation. By 1970-1 imports and exports together were down to some 5 percent of GDP. The dire situation in agriculture forced China to buy huge amounts of Canadian, Australian and Argentinean grain. This left not much foreign exchange for vital industrial materials and technologies. The situation improved somewhat in the mid-1970s, not the least due to the rise of oil production at the Daqing field in Manchuria. But then Daqing showed signs of depletion, and efforts at finding new fields remained largely unsuccessful (Naughton, 379 f). Thus the leadership under Deng had to face yet another severe problem, which was intertwined with the one of low agricultural productivity.

In parallel to the beginning agricultural reform, the Chinese leadership opted therefore for new trade channels. At first in a cautious fashion, but then increasingly bolder.

Prior to reform, foreign trade was strictly regulated. Only twelve foreign-trade companies had monopolies on all exports and imports. Individuals had no access to foreign currency, unless they had an authorization. Prices were set in order to privilege the state-owned companies, and as usually was the case with socialist economies, the exchange rate of the yuan was arbitrarily set at an overvalued level.

The first step at reform was taken in 1978 when Hong Kong business men were allowed to conclude “export-processing” (EP) contracts with Chinese companies in the Pearl River Delta. The Hong Kong firms delivered raw materials such as fabric which the Chinese transformed e.g. into shirts which were then exported



from Hong Kong. This construction did not create import pressure in China, while at the same time it enabled Chinese producers to benefit from export networks which Hong Kong business people had established.

The scheme soon became expanded when four large “Special Economic Zones” (SEZs) were established in the provinces of Guangdong and Fujian, i.e. the areas facing Hong Kong and Taiwan. Goods could be imported duty free, provided they were used to produce exports which could leave the country without sales or export taxes. SEZs were not a Chinese invention. Other Asian countries have experimented with them for many years, but the Chinese ones became exceptionally large (Naughton 407f). Foreign investors brought equipment and technology into these zones and employed Chinese workers. Soon a veritable export boom began.

In 1986 in the coastal provinces all sorts of firms, TVEs included, became authorized to engage in similar processing contracts. Foreign investors, mainly from Hong Kong and Taiwan, moved into the coastal zones in significant numbers. China practiced a kind of dual trade regime with the liberal export-promoting schemes, while the ordinary regulatory regimes continued as regards proper access to the domestic market, in particular outside the coastal zones.

The combination of liberal export-promoting policies and the influx of foreign-invested enterprises became the motor of an impressing export expansion (Naughton, 386f).

Success at foreign trade required a realistic exchange rate. In 1980 the exchange rate was 1.5 yuan to the dollar which generally rendered exports unprofitable. By 1986 it had declined to 3.5, i.e. to a competitive level. The same year the authorities allowed actors outside the plan to trade foreign currency on a secondary market, at a market-determined rate, whereas SOEs could deal at a politically-set rate. This dual system was abolished in 1994 and replaced by a unified exchange rate, to be determined by market forces, but subject to interventions by the Central Bank (“managed floating”). In practice it meant pegging the yuan to the dollar (Herr, 27f).

The 1980s saw a dramatic expansion of the number of institutions active in foreign trade. By 1988 the number of state-owned foreign trade companies was at 5,000, up from 12. Some 10,000 manufacturing companies had also direct import and export rights. Exports have become a profitable opportunity after the devaluation, and the decentralization increased competition. This made the actors much more cost-sensitive. Changes in world prices became transmitted to the domestic economy (Naughton, 384).

The Chinese reformers were afraid of import surges when dismantling the old trade system and therefore introduced high tariffs and many non-tariff barriers. By 1992 the trade-weighted mean tariff was 32 percent, the same as Brazil. In addition 51 percents of the imports were subject to non-tariff barriers. The state-owned foreign-trade companies were still the only ones with a licence to sell directly to the domestic market. However, the system had become much more open, flexible and integrated with the world economy (Naughton, 384f)

From the middle of the 1990s China moved into the direction of a genuinely open economy. One powerful motive in this respect was the prospect of WTO accession. At the bottom of the process that led to the establishment of the WTO in 1996 lay the “Grand Bargain”: The rich countries promised easier access to their markets for the light exports of developing countries, e.g. textiles and agricultural products. On the other hand the developing countries accepted giving better conditions and protection for foreign companies in their markets. The agenda of trade negotiations, previously in the GATT confined to manufactured products, became thus substantially enlarged, comprising now also agricultural products, services, or intellectual property rights. China had a strong interest in getting easier access for her light products in Western markets and in the legal protection which the WTO rules provide for member countries. On the other hand China was required to open her own market considerably. The above-described process of replacing many direct controls with tariffs had made negotiations already much easier because WTO-rules demand exactly this type of “tariffication”. Lowering these tariffs were next issue, and then in particular, opening up the ordinary trading system and giving trading rights on the Chinese markets to foreign and domestic private companies. A new foreign trade law, effective on a July 2004, brought these changes to a high extent. Average tariffs fell from 43 percent in 1992 to 17 percent in 1999, when the WTO negotiations could be successfully concluded. Under the agreement China promised to reduce industrial tariffs to 9.4 percent, actually implemented in 2004, and agricultural tariffs to 15 percent, likewise implemented. And very important, ordinary trade imports, i.e. those not covered by the export-promoting schemes, rose substantially, from 4 percent of GDP in 1998 to 13 percent only six years later (Naughton, 390-2). It should, however, be noticed that China in the first place only liberalized in order to promote exports. A proper opening of the internal market was *commenced* only much later. And the process is far from finished, which in turn have created problems with the EU (see below).

China’s WTO-accession was also a case of successful cooperation with the EU. In 2000 both sides signed an agreement in this respect. In order to help China to shoulder WTO-commitments, the EU in partnership with China designed a row of technical assistance projects, with a budget of 22 million euro.

As a result of the reforms and the processes which they set in motion, China was transformed within about 30 years from one the most closed countries in the world to one of most open ones. As a first indicator we might have a look at the shares of exports and imports in percent of the GDP:

**Table 1: China's Imports and Exports in percent of GDP**

Imports of goods and services, % of GDP		Exports of goods and services, % of GDP	
1990	2005	1990	2005
16	32	19	37

*Source: Human Development Report 2007/08, p.286.*

Similar shares of import of export can only be found with smaller countries such as Finland. But for a big country they are truly unique. In 2005 India came somewhat in the neighbourhood (24 and 21 percent), whereas e.g. Brazil or the US the shares were less than half of the Chinese levels. Also the composition of Chinese exports had changed dramatically. Primary exports accounted only for 8 percent of merchandise exports, 92 percent were manufactured products. And of these 31 percent were high-technology exports. True, these were mainly organized by foreign companies. But their share showed how successfully China had managed to integrate herself in the world economy.

Several points deserve to be emphasized in this respect. The first one is that the Chinese leadership had no theoretical blueprint when starting reforms. Rather, it confronted urgent problems in a pragmatic way, trying to find concrete solutions to concrete problems. Many things were first tried in some places and became general policies only if they had been proven workable. And presumably no one, Deng included, had an idea how much the reforms would actually transform China over the years. But the accumulated results were the far-reaching transformation of China from a closed top-steered socialist system into an open market economy with hard budget constraints. In fact, as it turned out, China came to introduce policies which were close to the so-called "Washington Consensus", i.e. a set of policy recommendations which in the 1990s according to John Williamson steered the International Monetary Fund (IMF) and the World Bank. The "Washington Consensus" has often been misunderstood as ultra-liberal, implying slashing the welfare state or abolishing any role for the state in the economy. But Williamson's list contains "only" plausible recipes such as a sustainable fiscal policy, opening for foreign trade and foreign direct investment or privatization of state-owned companies and strengthening of property rights – all of it introduced in China with great success. True, agricultural land is formally still state-property which the peasants only can lease, now for thirty years. But the process of giving them de-facto property rights has gone far, not the least with the Rural Land Contracting Law of 2003. Actually, the "Washington Consensus" recommendation least followed in China

was the one to redirect public spending to areas such as primary schooling and primary health care; spending in these areas contributes most to growth while at the same time it reduces inequality. China has been enormously successful at reduction of absolute poverty, but it has also become a very unequal society. All in all, China has not implemented the “Washington” recommendations *completely*. But extent she has done so is truly remarkable, not the least in comparison to many other Third-World countries (Zank 2008).

In our context important: Also the European Union shares the basic philosophy of the “Washington Consensus” and tries to influence matters in the same direction. We might therefore also call it the “Brussels Consensus”. And given the point that China has been moving in exactly this direction, the EU has many years ago taken the view that the EU should *assist* China in her reform process. We will return to this point.

### **Two open market economies with an important overlap of interests**

The transition to an open market economy has profoundly altered Chinese national interests, as perceived by the leadership. China has become heavily *dependent* on stability in her surroundings. In spite of the many successes, the Chinese leadership still has many things to worry about, be it ethnical clashes in Lhasa or Urumqi, high inequality and widespread social unrest or citizens questioning the legitimacy of the political rule. Continuing economic growth is seen as essential for internal stability.

China has therefore a strong interest in stable surroundings. A bullying foreign policy, let alone a return to Maoism, would therefore be profoundly detrimental to Chinese interests. It is therefore only logical that Beijing’s foreign policy increasingly developed from bi-lateralism, seeking partners against others, to multilateralism (Song 2010). Now it is about to create stability, *together* with her neighbours and other powers.

True, not all aspects of Chinese foreign policy seem to fit into this picture. Missile deployment at the Taiwan Strait or an assertive diplomacy as regards the South China Sea has worried many in the neighbouring countries. Not the least because this has been accompanied by a rapid modernization of the Chinese military forces. Consequently, the US-centred system of military alliances and the military presence of the US is still an important part of the security architecture of Asia. Speaking in theoretical terms, the findings of the “realist” school with their underlining of the importance of power and military capabilities are still relevant, but only as one aspect among many others (Shambaugh 2006). But leading realists such as John Mearsheimer have landed

far away from target when predicting inevitable harsh conflicts, probably even military ones, because allegedly, all major powers have always been striving for hegemony, and the rising China, again allegedly, will not be an exception. This view overlooks the massive trend towards interdependence and the strong Chinese interest in stable and calculable relations with the outer world.

As we have seen above, the same interest in stable and calculable relations with the outer world has also been a major driving force behind European integration. In this respect China and the EU have developed similar interests which in turn have created the basis for a far-reaching practical partnership.

But the EU and China have different political systems. The EU member states are democracies, as understood in the West. Also the decision-making processes of the EU are built on such principles. By contrast, China is, in Western academic parlance, an autocracy with the power monopoly of one party. These differences have often rendered cooperation difficult. In a way we can put the blame for this mainly on the EU side. China has no ambition (any more) to change the systems of others. But for the EU the support for human rights, rule by law and eventually democracy has been an integral part of its policy. Constructivists may see this as expression of EU's identity which ultimately shapes external policies. But it can also be seen as pursuing EU interests: According to dominant belief only systems with respect for human rights and rule by law can built up lasting political legitimacy which in turn is necessary for social stability. And given the point that stability – worldwide – is seen to be in the interest of the EU, the EU follows its own interests when supporting these values. In this perspective the Chinese transition has been incomplete. Assisting at making it complete is, again in this perspective, in the interest of the EU *and* China. We will revert to this point.

### **The Emergence of a New “Strategic Partnership”**

In 1975 China and the EU established official relations. A trade agreement was signed in April 1978, and in 1980 the EU included China in the group of countries which were eligible for the Community's Generalised System of Preferences. Not the least due to her reform process, China could count on much good will in the West, and in 1985 the EU and China signed a broader trade and cooperation agreement. In 1988 the EU Commission opened a representation in Beijing. But the seemingly fast developing relations suffered a severe setback after the Tiananmen Square “event” in June 1989. The EU Madrid Summit on 26/27 July decided on an embargo on arms sales and military cooperation, the suspension of high-level meetings, the postponement of new cooperation projects and the scaling down of existing ones.

After some years relations became normal again, except for the continuing arms embargo. It was in particular Germany to push for a more comprehensive approach to China and Asia in general. The *Asienkonzept* of the German government played an important role for EU discussions. Germany aimed in particular at more trade and investment, mainly in order to improve European competitiveness, at a time when economic prospects seemed to herald the advent of a “Pacific Century”(Gaens, 58).

However, the EU approach comprised much more than economic relations. In 1994 the EU and China agreed upon a framework for bilateral political dialogue, i.e. institutionalized venues for dialogues on all levels. And in 1998 the first EU-China Summit was held, attended on the EU-side not only by EU-representatives such as the president of the commission, but also by the heads of states and governments. These summits have been held on an annual basis, alternating between a venue in China and the EU.

In 1995 the EU Commission published a first policy paper on China, *A long-term policy for China-Europe relations*, which was endorsed by the European Council (composed of the heads of states and governments). The paper thus became a strategic guideline for the EU. The Commission proposed and the European Council endorsed four more of such policy papers on China (in 1998, 2001, 2003, and 2006). There are shifts of emphasis from one paper to another (Mattlin, 99-102), but as to the basic points there has been a remarkable continuity. Already the 1995-paper identified as major EU interests a shared concern about global and regional security, other global issues such as global economic stability, and preserving EU competitiveness. The major objectives towards China were defined as: To encourage China to work for full integration into the international community, to contribute to reform inside China (including human rights), and to intensify the ties between the EU and China (Mattlin 99).

15 years later the web-site of the EU’s new European External Action Service stated (as retrieved on 23 December 2010) as the main objectives of EU policy towards China:

- engage China further, bilaterally and on the world stage, through an upgraded political dialogue.
- support China's transition to an open society based upon the rule of law and respect for human rights.
- encourage the integration of China in the world economy through bringing it fully into the world trading system, and supporting the process of economic and social reform
- raise the EU's profile in China.

In October 2003 the Chinese government published a paper on China's EU policy, the first of its kind (China's EU Policy Paper). As to the general situation, the paper states that the "trend towards world multipolarity and economic globalization is developing in twists and turns." In this world the EU is seen as a growing power: "The European Union (EU) is a major force in the world ... Despite its difficulties and challenges ahead, the European integration process is irreversible and the EU will play an increasingly important role in both regional and international affairs." The development of the relations is assessed positively: Despite their twists and turns, China-EU relations as a whole have been growing stronger and more mature and are now on the track of a comprehensive and sound development ... There is no fundamental conflict of interest between China and the EU and neither side poses a threat to each other." Given the point that the two sides are different as to e.g. cultural heritage or political system, it is "natural" that they disagree on some issues. However, the "common ground between China and the EU far outweighs their disagreements." Both sides work for "democracy" in international relations and an enhanced role for the EU, both are combating terrorism and promoting sustainable development. Not the least: "China and the EU are highly complementary economically thanks to their respective advantages."

The Chinese government emphasized the importance of the one-China principle, and as to Taiwan and Tibet the tone turned somewhat demanding. But otherwise the Chinese side underlined repeatedly its desire to develop cooperation further and mentioned various fields and concrete initiatives and proposals, even as to "people-to-people exchanges and those between non-governmental organizations."

Both sides have therefore declared that they wish an intensification of relations and cooperation. However, it stands out that the EU has formulated an open policy of promoting internal changes in China (and other countries). One might see such a policy as ideology-driven (exporting your own values and institutions). However, the EU leaders repeatedly underlined Europe's *interest*. For instance the executive summary of the last cooperation strategy paper states: "Europe has an important economic and political interest in supporting China's sustainable development and successful transition to a stable, prosperous and open country" (Mattlin 102). Here we have again the topic of interdependence and hence the interests of countries to keep their surroundings stable and calculable. And underlying is the belief (in this respect common with China) that stability demands economic growth and reduction of poverty, and economic growth in turn requires openness.

The EU can, of course, not *impose* anything on the Chinese side. But it can "assist" and "support". As Mikael Mattlin commented: "The EU expects

Chinese leaders ultimately to come to see that they should effect these changes in their own interests. What remains unclear is what happens if they do not agree with these goals, or even fundamentally disagree with them” (Mattlin 103). However, the EU is not constrained just to “expect”. It can try to influence things, e.g. through dialogue. The EU’s own experiences with overcoming confrontations and supplanting them with stable cooperation might have something to say to Chinese leaders. And furthermore, underlying the EU-policy is also the belief that functional, seemingly merely technical cooperation is not only mutually beneficial from a practical point of view. It also has political effects, e.g. by socializing actors into new partnership communities which again make it easier for arguments to trespass cultural borders.

The idea of the EU that China should change its system has reportedly been seen by many Chinese as a new version of imperialism. And the EU’s stance on human rights or Tibet has also led to “official” diplomatic irritations. However, the “imperialist” attitude of the EU has not prevented the Chinese leadership for looking for more cooperation. In the 1990s it was Beijing to rhetorically upgrade relations with the EU as a “Strategic Partnership” (which China has tried to build up with many partners). The EU responded positively and started to use the term too. China made a similar offer to the US, but the Clinton administration felt uncomfortable with such an idea. And George W. Bush publicly labeled China a competitor, not a partner (Mattlin 115). This remarkable difference in political rhetoric between the EU and the US is not just words. It reflects presumably a substantial difference in thinking: In the US elite thinking in “realist” terms is much more widespread, and therefore the rise (or rather: re-emergence) of China is often seen as a threat. In Europe, by contrast, political discourses have been shaped much more by ideas such as overcoming anarchy in international relations by building stable contractual networks and institutions. Inviting China to participate in such endeavors has been a central part of EU policies.

The term “Strategic Partnership” has not been defined in a proper academic way. But leading actors have repeatedly said what they meant with it. As the Chinese Prime Minister Wen Jiabao said in 2005, there has been a

shared view of the two sides to work for a comprehensive strategic partnership. By ‘comprehensive’ it means that the cooperation should be all-dimensional, wide-ranging and multi-layered. It covers economic, scientific, technological, political and cultural fields, contains both bilateral and multilateral levels, and is conducted by both governments and non-governmental groups ... by strategic it means that the cooperation should be long-term and stable, bearing on the larger picture of China-EU relations. It transcends the differences in ideology and



social system and is not subjected to the impacts of individual events that occur from time to time (Scott 26).

Commission President José Barroso declared that the British Prime Minister Tony Blair, holding the EU Presidency in 2005, and he himself fully agreed: “... we put the big picture in front of minor problems that might appear precisely because the relationship is growing and developing very fast in a very wide number of sectors” (Scott 27).

The scope of dialogue between China and the EU has indeed greatly expanded since its launch in 1994. Already in 2006 in David Scott’s view “this cumulative ever-increasing web of China-EU links seems impressive enough” (Scott 30). By then he counted 12 layers, ranging from the Annual Summits through five ministerial and nine administrative levels, besides of 20 sectoral agreements and dialogue, all in all 35 regular bilateral avenues. Since then this type of cooperation has expanded further. By 2010 according to the European External Action Service cooperation had spread to more than 50 areas. The various dialogues report to the EU-China Joint Committee and ultimately to the annual EU-China Summit. Since 2007 two more high-level mechanisms have become established, namely a High-Level Economic and Trade Dialogue (HED), and a High-Level Strategic Dialogue. And the dialogues that have existed already for some years have gradually expended their scope. For instance, in the field of customs cooperation a mutual assistance agreement was signed in 2004, and cooperation have comprised also the enforcement of intellectual property rights (a big concern on the EU side), container security and preventing drug trafficking. The dialogue on environment paved the way for a cooperation agreement on preventing illegal logging and associated trading. Interestingly, since 2004 a dialogue has been taking place on regional policy; the many experiences which the EU collected with its regional policy became shared, and questions such as how regional policy can stimulate growth in backward regions are examined (European External Action Service 2010). Can the EU export parts of its political philosophy?

### **“Minor Problems that Might Appear”?**

Economic relations is the field where cooperation has developed most dynamically. The basic forces behind this were China’s economic opening and the creation of the common and open European internal market. The Internal Market made it much easier for foreign companies to operate in the EU: If they meet the standards to enter the EU in one place, then they have access to the whole EU. Previously entering France was one thing, entering Germany another. Also China’s WTO-accession contributed strongly to the expansion of ties. Not

the least because in the WTO the multi-fiber agreement expired in 2005, abolishing the previous regime of textile quotas. One of the main beneficiaries was the new WTO-member China. In some dry figures, EU-China trade expanded from 4 billion euro in 1978 to 296 billion in 2009 – and to 395 in 2010, an increase by 37 percent! The EU has become China's most important trading partner, whereas for the EU China is second only to the US. China became Europe's biggest source of manufactured imports (European Union Factsheet 2010, 2; European Commission 2011).

On the 13<sup>th</sup> EU-China Summit in Brussels in October 2010 the leaders could express “satisfaction that the bilateral relations had strengthened during the recovery from the international financial crisis” (Council 2010).

However, exactly in the field of economic relations a number of problems have appeared. One has been China's persistent trade surplus with the EU, and on numerous occasions EU-representatives have voiced critical remarks on e.g. entry barriers on the Chinese market. When the WTO organized a trade policy review of China in May 2010, John Clarke, the head of the EU delegation, spoke of “important transparency deficits in China's trade regime.” China's Compulsory Certification Scheme (CSS) constitutes a “major obstacle to foreign exporters due to the complexity, costs and length of the procedure”. When it comes to public procurement, a new “indigenous innovation scheme” – suspected of unduly privileging local producers – “is creating uncertainty...” The protection of Intellectual Property Rights has been “insufficient” (actually a major concern in Brussels). Many complaints have been voiced earlier, “we see clear signs of reform stagnation” (European Union opening statement).

China also introduced export restrictions (duties, quotas) on rare key raw materials such as bauxite, fluorspar or magnesium, this way privileging domestic producers. In June 2009 the EU and the US, followed by Mexico raised the issue at the WTO, and on 6 July 2011 the panel ruled clearly against China: Environmental considerations, as claimed by China, cannot justify these kind of export restrictions.

Certainly, the trade deficit and restrictions of investment possibilities in China are seen in Brussels as important problems. It is, however, remarkable that these problems have not produced high-pitch political reactions as e.g. in the US where senators repeatedly have demanded punitive tariffs against imports from China. Furthermore, it is somewhat misleading to talk about a “Chinese” trade surplus. More than half of China's exports are produced by foreign-invested companies, mainly from Japan, Taiwan, Hong Kong and South Korea (EU Commission 2010).

The Chinese side has repeatedly criticized that the EU has refused to give China Market Economy Status. This would make it more difficult for the EU to impose anti-dumping tariffs. According to the EU, some Chinese exporters sell their products at prices below production costs, in order to gain market shares. In 2009 China was actually the biggest address of trade investigations in the EU. 52 anti-dumping measures were in force by May 2010, covering, however, only about one percent of Chinese imports (EU Commission 2010).

Outside the field of economics human rights and the Tibet questions have repeatedly produced complications. On various occasions the European Parliament – an institution with little direct responsibility in foreign affairs – has passed critical resolutions on the Chinese handling of Tibetan affairs. The Chinese government seems to have chosen to ignore EP-resolutions, at least in public. But it expressed severe misgivings when European governments received the Dalai Lama. The above-mentioned Chinese paper on the EU from 2003 contained a passage “4. Promote the EU’s understanding of Tibet” and explicitly requested the EU side “not to have any contact with the ‘Tibetan government in exile’ or provide facilities to the separatist activities of the Dalai clique”. On these grounds the Chinese government cancelled the 2008 Annual Summit in Lyon, when French President Sarkozy had received the Dalai Lama. However, the meeting then took place in 2009. A source for new irritations on the Chinese was the Nobel Peace Prize to the imprisoned dissident Liu Xiaobo. Leading members of the European Parliament attended the ceremony. But also EU “foreign minister” Catherine Ashton published a statement, “reiterating” her call for his immediate release.

Since 1997 human rights have been the topic of a particular dialogue mechanism. But this produced few tangible results. On the European side many have expressed disappointment because of a perceived lack of progress. Among EU officials there is a “pervasive dialogue fatigue” on this field (Men 6)

Finally, EU’s arms embargo has remained in place, despite repeated Chinese demands for lifting it. In 2003-4 some EU leaders, in particular France’s Jacques Chirac and Germany’s Gerhard Schröder, lobbied in this sense. But decisions such as these can be altered only by unanimity, and others countries, e.g. the Netherlands strongly opposed such a move, on the ground of insufficient improvement of the human-rights situation. Furthermore, the US government put strong pressure on the EU for maintaining it. As mentioned above, the US military engagement in East Asia in order to balance China’s power is part of the picture. If Europeans were to deliver high-tech weaponry to China, this might even impair trans-Atlantic security partnership (Mattlin 110f).

For the EU the alliance with the US is a top-priority. Reportedly there were hopes on the Chinese side that the EU might develop into a “pole” in a “multipolar world” that could be used to “balance” the US. But they were mistaken. There is not the slightest interest on the EU side to participate in anti-US schemes.

All in all, there have been numerous points of friction and irritation between the EU and china.

But they have not impeded a continuous impressive growth and development of the mutual ties. Both sides have a strong interest in intensifying cooperation, and this makes them keeping the differences “compartmentalized”.

### **Some Conclusions**

China and Europe have been very different. And by about 1970 there were hardly any connections between them. This has changed rather dramatically. By 2010 the two sides had engaged in many patterns of close cooperation. On the economic side this is most visible, where the EU has become the biggest market for Chinese exports and China the fastest growing export market for the EU. But also in many other fields such as technical cooperation or academic exchange dense networks have developed. Just between the China and the EU, the member states not counted, some 50 institutionalized sector dialogues have been established. Direct contacts between the political systems are multifold and multi-layered, topped by the annual summits. On many questions in international politics EU and China work along similar lines, for instance, as regards strengthening the UN system.

These changes in the relations *between* the two spheres are due to important changes *within* them. On the one side, the EU has developed into a big open market, governed by common and supranational institutions; increasingly the EU has become able to formulate coherent foreign policies. In theoretical terms, a combination of federalist theory and neo-functionalism seems best to explain the development. At the other pole, China has gone through a tremendous transformation, from a closed planned-economy society to an open market economy. Seen from the EU the transition to economic openness is still incomplete, but the amount of reforms in China has certainly been impressive. In terms of economic theory, China’s economic growth seems to vindicate some central tenets of economic mainstream theory, namely that openness and a strong role for markets are necessary – albeit alone not sufficient - for economic growth. And policy makers in both the EU and China seem to see it like this, an important point of mental conversion. The point that the Chinese reforms are

perhaps incomplete cannot surprise when the size of the tasks and the changes involved are taken into consideration. Besides, incomplete reforms, policy inertia and the retarding pressure of groups with vested interests have not been confined to China. It can easily be seen also in the EU, the agricultural policy being just one field where reform has been slow. Theories of the unequal weight of organized interests can presumably explain something in both China and the EU.

The point that China and the EU have developed into big open market economies has produced a convergence of important interests. Both sides have become heavily interdependent with each other and the outer world at large, and this has created a strong interest on both sides to work for stability in their surroundings, based on lasting, if possible: multilateral arrangements. The old policies of power rivalry are no longer a proper option, exactly because they would create instability. This is not to say that “realism” has become completely irrelevant. As the US-led military alliances with Asian countries and China’s modernization of her own forces show, “hard power” and military capabilities are still important parts of the picture. But due to the internal transformations and the fast growing interdependence, “realist” models have lost much relevance in relative terms. Liberal interdependence theory provides a much better understanding, and its relevance is increasing by the day.

Leaders in Beijing and in Brussels look at the world in these terms and endeavor to manage interdependence. In their bilateral relations and in other fora such as the UN or the G-20.

Does this mean that we will see an irreversible trend towards more cooperation between China and the EU? Certainly there is no *guarantee* against backlashes. The positive scenario rests on the assumption that China will remain internally stable and continue on a pragmatic course. In the case, hopefully completely hypothetical, that China should experience major internal convulsions matters could turn unpredictable. Under these circumstances a new Chinese leadership might follow ultra-nationalist policies, and this then could indeed produce confrontations with other countries. Then, but only then, the pessimistic scenarios of Mearsheimer and other “realists” could gain some probability. And to be sure, confrontations in East Asia would certainly negatively affect relations with the EU. But exactly because the costs of confrontational policies would be so immensely high for China, such a policy is highly unlikely, even in times of internal convulsions.

Mutual interests in cooperation and stability does not imply perfect harmony. EU and China have different political systems, and this has often produced disharmonies. Basic bones of contention have been human rights and the

situation in Tibet and Xinjiang. Why does the EU side practice interference in Chinese affairs and risks e.g. the loss of export orders? Authors in the social constructivist vein will emphasize European identity and the centrality of human rights in this connection. I would modify this view: The protection of human rights and their promotion play a central role for the legitimacy of the EU towards its own citizens. Just being inactive in front of human-rights abuses is therefore not an option. In addition there is a dominant belief in the EU system that political stability can only be maintained in the long run if human rights are not infringed. China's transition will be seen as incomplete as long as they are not place.

Directly the EU can do very little for human rights in China. However, giving prominence to persons such as the Dalai Lama or Liu Xiaobo EU leaders can put indirect pressure on the Chinese leadership. After all, exactly because of the economic opening political news travel much easier across borders than previously. And in this respect the seemingly very technical or materialist EU policy as to economic problems has potentially far-reaching political implications. As the Commission formulated in its 1995-paper on China: "EU policy is based on the well-founded belief that human rights tend to be better understood and better protected in societies open to the free flow of trade, investment, people, and ideas" (Mattlin 103).

Discourses in the EU system have thus been firmly grounded on variants of modernization theory which have postulated a correlation between the level of economic development, political structures and central cultural values such as democracy and human rights. There is certainly no linear correlation. But already the fact that modernization theory permeates the EU system makes it very important. Furthermore, looking at the world after, say 1970, we can state that democracy has expanded dramatically while GDP has been growing. All countries above a certain level of GDP are democracies by now.

In case China one day will join this group, relations with the EU would certainly become outstandingly close.

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